THE EFFECTIVENESS OF GOVERNMENT-SUPPORT PROGRAMMES TOWARD BUSINESS GROWTH

Rafidah Ismail, Norfaridatul Akmaliah Othman

Faculty of Technology Management and Technopreneurship,
Universiti Teknikal Malaysia Melaka

ABSTRACT

Recognizing the important role played by Small and Medium-Sized Enterprises (SMEs) in the nation's economic activities, the Government has introduced several assistance programmes and incentives called government-support programmes (GSPs) which consists of financial and credit assistance, marketing and market research, technical and training assistance, extension and advisory services, and infrastructure supports. The GSPs aimed at preparing sustainable growth for SMEs. However, the contribution of GSPs toward business growth in SMEs firms is still questionable. GSPs are seen as lacking and not delivering enough towards developing and strengthening local SMEs. Therefore, the aim of this research is to identify the contribution of GSPs toward business growth among SMEs in Malacca. The aim was achieved through exploring, analyzing and examining the relationship of three dimensions of GSPs namely financial assistance, training assistance and marketing assistance and their importance toward business growth. The research methodology applied for this research is quantitative approach and research design chosen is descriptive study. A sample of 118 respondents of SME's firm was surveyed using a structured questionnaire as an instrument. The findings of this research show that GSPs have a positive impact toward business growth among SMEs in Malacca. Furthermore, from the results also show that marketing assistance is the most important toward business growth compared to the others two dimensions of GSPs. This research provides some insight into the SME support agencies in order to exploit their potential and thus to increase the effectiveness of the relevant Government-Support Programmes. For policy makers and ministries, the results can be used as the reference in formulating policies or support programmes to help SMEs gain better access to global markets, technology and finance as well as to improve their management capabilities.

***KEYWORDS**: Small and Medium-Sized Enterprises (SMEs), Government-Support Programmes (GSPs), financial, marketing*

I. INTRODUCTION

Small and medium-sized enterprises (SMEs) are the silent drivers of a nation's economy. SMEs play a very important role by providing employment opportunities and acting as suppliers of goods and services to large organisations; therefore, lack of product quality from the SMEs can affect the competitive ability of larger organisations (Stevenson & Jarillo, 1990; Storey, 1994). According to Karpak and Topcu (2010) and Paul, Whittam, and Wyper (2007), SMEs have become an increasingly important element of economic growth, representing a large part of most economies around the world. Furthermore, governments and economists see the SMEs as a mechanism to create national growth (Pollard & Hayne, 1998). The flexibility and responsiveness of SMEs to adapt to changes in demand is a key component of a country's economic growth strategy (Hunter & Long, 2003).

SMEs are considered as the backbone of industrial development in Malaysia. The rapid industrial development has made Malaysia one of the most open and dynamic developing economies in the world. According to (Mohd Zulkifli, Mohd Rushdan, and Zakiah Hassan, 2010), under the Ninth Malaysian Plan (2006-2010), the government had designed a plan to help SMEs in all aspects of their operations, including research and development to enable them to meet business challenges in the competitive global business environment.

This research was carried out with the following objectives: (1) to explore the various dimensions of GSPs toward business growth, (2) to analyze the relationship between GSPs and business growth, and (3) to examine the level of importance among three dimensions of GSPs toward business growth.

II. LITERATURE REVIEW

Small and Medium-sized Enterprises in Malaysia

The development of small and medium-sized enterprises in Malaysia started when the government introduced the New Economic Policy (NEP) in 1971. The purposes of this policy, which officially ended in 1990, were to improve the welfare of the people and restructure ethnic economic imbalances.

Strengthening SME development is important since the sector is expected to be an integral component of Malaysia's efforts to achieve sustainable economic growth and a developed nation status by 2020.

The government has allocated RM3.2 billion for 198 SME development programmes across all sectors of the economy. In response, the number of applications for grants and financial schemes has increased. It is hoped that with these development programmes, SMEs can develop their own capabilities, market access and the value of products and services to meet the many requests from the society.

In 2006, the Malaysian National SME Development Council reported that SME sector employed more than 5.6 million workers and SMEs comprised 99.2% of the total number of business establishments. The SME sector also accounted for 32% of the real gross domestic product (GDP) and 19% of the total export value of the country. These data indicate that SMEs are crucial for the prosperity of Malaysia.

SMEs have been recognized as a strategic thrust in the Malaysian economy based on various reports of government agencies. Various definitions of SMEs can be found in the literature but this study used the definition proposed by the Small and Medium Enterprise Corporation (SME Corp, 2011) known as SMIDEC as it is the most comprehensive. According to SMIDEC, SMEs are enterprises with annual sales turnover not exceeding RM25 million and full-time employees not exceeding 150. SMEs can be categorized into three groups: (1) micro enterprises, (2) small enterprises and (3) medium enterprises. The categorization is based on the number of employees and sales turnover. The definition classification of SMEs in Malaysia is shown in Table 1.

Table 1: Definition Classification of SMEs in Malaysia

Category	**Micro enterprise**	**Small enterprise**	**Medium enterprise**
Manufacturing, manufacturing-related services and agro-based industries	Sales turnover of less than RM250, 000 or fewer than 5 full-time employees.	Sales turnover between RM250,000 and RM10 million or between 5 and 50 fulltime employees.	Sales turnover between RM10 million and RM25 million or between 51 and 150 full-time employees.
Services, primary agriculture and information and communication technology (ICT)	Sales turnover of less than RM200, 000 or fewer than 5 full-time employees.	Sales turnover between RM200, 000 and RM1 million or between 5 and 19 full-time employees.	Sales turnover between RM1 million and RM5 million or between 20 and 50 full-time employees.

Source: Small and Medium Enterprise Corporation (SME Corp), 2011.

Government Support Programmes in Malaysia

In the early years of independence, there were no government-support programmes that were designed specifically for SMEs. When Malaysia embarked on an industrialisation drive in the 1960s, government assistance for SMEs was initially outlined in the First Malaysian Plan (1966–1970). Recognising the important role played by SMEs in the nation's economic activities, the government introduced numerous assistance programmes and incentives called government-support programmes (GSPs).

Over the years, the number of ministries and agencies, at both the federal and state levels, involved in providing assistance programmes to the SMEs sector has increased significantly. There are a total of 15 ministries and more than 60 government institution or agencies with varying responsibilities, which offer a variety of programmes to support the development of SMEs (SMIDEC, 2009).

Government-support programmes for SMEs in Malaysia focus on five areas, namely, financial and credit assistance; technical and training assistance; extension and advisory services; marketing and market research; and infrastructure supports (Abdullah, 1999; Daisy, Azura, Lilis, & Noor 2011). In addition, the government provides SMEs with: management expertise, finance, land/building, facilities, and information about the market and tax deduction (Hashim, Mahajar, & Ahamd, 2003).

In today's constantly changing economic climate, it is important for the government to provide assistance that will help small and medium businesses grow. To the SMEs, government assistance is considered as a hygiene factor in the sense that it is a condition that allows them to compete in global markets, but insufficient to ensure their success.

Government-support Programmes: Financial Assistance

Since the late 1970s, the Malaysian government has established a number of specialised financial institutions and has adopted policy measures to provide credit that is cheaply available and accessible to SMEs. Among these are measures and schemes of Bank Negara Malaysia such as the Priority Lending Guidelines that impose quantitative lending targets on commercial banks and finance companies, requiring them to lend a specified minimum amount to small and medium enterprises and other groups below market interest rates. Banks that fail to meet the lending guidelines are penalised as Bank Negara Malaysia (BNM) requires with any shortfall in lending at a 0% interest rate.

The small businesses, can get access to financing through funds and schemes for small businesses provided directly by the government. These funds and schemes, intended primarily to foster and develop the enterprises, are in the form of soft loans, grants, equity financing and venture capital. They are administered by a number of ministries and agencies. The ministries in charge of financing and development programmes include the Ministry of Entrepreneur and Co-operative Development (MECD) and Ministry of Science, Technology, and Environment (MOSTE).

In addition, SMEs can obtain loans, grants and equity financing from participating agencies such as Bank Negara Malaysia (BNM), the development financial institutions (DFIs are established and funded by the government), Credit Guarantee Corporation (CGC), Majlis Amanah Rakyat (MARA), Perbadanan Usahawan Nasional Berhad (PUNB), Perbadanan Nasional Berhad (PNS), Malaysia Debt Venture Berhad (MDV), Malaysian External Trade Development Corporation (MATRADE), Malaysian Biotechnology Corporation Berhad (MBC), Malaysian Technology Development Corporation (MTDC), Multimedia Development Corporation (MDeC), MIMOS Berhad (MIMOS), Malaysian Industrial Development Finance Berhad (MIDF) and Small and Medium Industries Development Corporation (SMIDEC). In addition, micro-credit schemes for microenterprises are channeled through Bank Simpanan Nasional (BSN), Bank Pertanian Malaysia (BPM), Yayasan Tekun Nasional (YTN) and Amanah Ikhtiar Malaysia (AIM).

The majority of SMEs need financial resources to finance production. These resources are either in the form of debt, the cost of which is the interest paid, own savings, family savings, or in the form of equity which has required fixed or unfixed return. Small firms tend to be more self-financing, have lower liquidity, rarely issue stock, have lower leverage, rely on bank financing and use more trade credit and owner's loans . According to Renfrew (1982), small firms rely heavily on proprietors' equity, retained profit and trading bank finance. There are five categories of small firms with regard to their dominant source of finance namely, trade credit debt, bank loan debt, related person's debt, owner's equity and other debt or equity such as venture capital, credit card debt or government loans . On the other hand, empirical investigations have provided evidence that adequate prediction information may not be available in most SMEs (Edwards & Peter, 1994).

Government-support Programmes: Training Assistance

Training of those working in SMEs has become increasingly essential as a majority of these businesses have realized that employee training contributes positively to the growth of the organization. Businesses need to develop their employee's knowledge and skills and equip them with the right attitude to deal successfully with the impact of technological, economic, political and social changes. It is common to hear comments about the importance of having the right employee training system to enable an organisation to compete in markets that are becoming increasingly dynamic, demanding, complex, global and segmented. Therefore, organisations or companies should be flexible enough to adapt to changes and adapt their skills and knowledge to the new demands .

Noe (2000) defined training as a planned effort by a company to facilitate employees' learning of job related competencies, which consist of knowledge, skills and behaviour critical to successful job performance. Furthermore, according to Hashim and Wafa (2002) "training refers to a planned and systematic effort to modify or develop knowledge, skills and attitudes through the learning experiences, to achieve effective performance in an activity." Generally, training involves learning focused on the employee's present or current jobs with the aim to improve job performance .

A well trained workforce is a company's best asset to grow the business. It is for this reason that the Malaysian government put so much emphasis the training and development of manpower. Some of the measures taken by the Malaysian government include establishing industrial training institutes that offer basic, intermediate and advanced level training programmes (Intan, Theresa, & Maria, 2011). They can conclude that the implementing of training programmes has a significant impact on a firm's performance. Therefore, there is a need to integrate a comprehensive human resources development approach into the firm's strategic plan. Firms in Malaysia should employee training strategic effectiveness, as a strategic factor to achieve their goals.

Training is essential to ensure an adequate supply of staff that is technically and socially competent and capable of career advancement into specialist departments or management positions. There is, therefore, there is a need for ongoing professional development, and training fulfils an important part of this process. Training should be viewed as an integral part of the total quality management process.

Government-support Programmes: Marketing Assistance

Marketing is the process of performing market research, selling products, and/or services to customers and promoting them via advertising to further increase sales. It produces a strategy that underlies sales techniques, business communication and business development. It is an integrated process through which companies build strong customer relationships and create value for their customers and for themselves. Poor marketing is a perpetual problem for small businesses . In Malaysia, there are numerous agencies that provide marketing consultancy services. These consist of Malaysian Entrepreneur Development Centre (MEDEC), National Productivity Corporation (NPC), the DFIs and SMIDEC. NPC presently provides a range of short courses, particularly in the areas of marketing, sales promotion and exporting. In addition, NPC and MEDEC are also provide self-instruction kits containing training videos and audio tapes on marketing along with texts, samples, illustrations, case studies and other materials to be distributed to SMEs. SMEs are also being assisted to find markets for their products by various government agencies such as Federal Agricultural Marketing Authority (FAMA) and Malaysian Agricultural Research and Development Institute (MARDI).

The Subcontracting Exchange Scheme at the SMIDEC also plays an important role in linking SMEs with large firms. Under this scheme, data on the buyers' requirements and the vendors' capability to supply are gathered to provide the latest information for both SMEs and large firms. The public sector also represents a significant market for SMEs. SMIDEC has also collaborated with the Malaysia External Trade Development Corporation (MATRADE) to develop and nurture export oriented SMEs to become more competitive as well as to provide comprehensive marketing information, advisory services on exporting business appointments and participation in trade fairs and trade missions.

Business Growth

SME growth has attracted much interest among researchers (Davidsson, Acthenhagen, & Naldi, 2006). However, it is not easy to make a coherent study of this topic. Each research has followed a diverse direction. The reason for this may be due to differences in perspective and theoretical background, empirical contexts, model and analysis approaches, and the inherent complexity of the nature of growth itself

Growth for small businesses is not consistently defined across industries and organisations. In contrast to large corporations which measure growth using indicates such as shareholder value and return on capital, there are no formal reporting requirements for the majority of small businesses. Therefore, governmental organisations such as the U.S. Census Bureau often rely on a recorded event such as small business bankruptcy filings, as a surrogate measure of growth.

Numerous empirical studies have incorporated both qualitative and quantitative measurements of business growth and performance (Dalton & Kesner, 1985; Venkatraman & Ramanujam, 1987). However, what may be considered strong performance for one industry or organisation can be deemed weak performance for another. Thus, for this study, growth was determined by responses to four self-reported measures via a questionnaire: (1) Sales/revenue growth, (2) expansion of customer/client base, (3) establishment of new locations/sites, and (4) staff increases. All four growth dimensions are relative to key competitors . Consideration was given to the fact that some growth indicators may not pertain to a particular business. For example, some small firms may not have the intention of establishing new locations and sites. Therefore, different growth indicators were selected due to their generalisability across several and various segments of the industry. The following terms were used interchangeably in the study: Growth, performance, commercial growth, business growth, and small business growth.

III. RESEARCH METHODOLOGY

Data Collection

In order to obtain primary data, a questionnaire was used. The questionnaire was prepared in English and Malay to have better feedback as the respondents came from various educational backgrounds. The questionnaire was divided into four sections namely, background of the firm, basic knowledge of GSPs, types of GSPs and business growth. The questionnaire used a five-point Likert scale ranging from "1= strongly disagree" to "5 = strongly agree".

The questionnaire was distributed to 320 of SMEs in Melaka which received assistance through government-support programmes (GSPs). The survey was conducted for two and a half months. Out of the 320 questionnaires distributed, 118 were returned and used in the final analysis.

Data Analysis

Statistical Package for the Social Sciences (SPSS) version 19.0 was used to tabulate the data gathered from the research questionnaire. It was also used to test the hypotheses formed.

In addition, this research used descriptive statistics and quantitative data analysis. Descriptive analyses are undertaken to ascertain and to describe the characteristics of the variables of interest in a situation . Descriptive research or statistical research describes data and characteristics about the population or phenomenon being studied. This type of research is used to study descriptive, reliability and correlation.

IV. FINDINGS AND DISCUSSION

Determining Correlation

Table 2 illustrates the relationships between the dimensions of government-support programmes (GSPs) and business growth of SME. The dimensions of GSPs were financial, training and marketing assistance; these were employed as the independent variables while business growth was the dependent variable.

Table 2 Correlation between dimensions of GSPs and business growth (Pearson Correlation)

Items	Financial Assistance	Training Assistance	Marketing Assistance	Business Growth
Financial Assistance	1			
Training Assistance	.588**	1		
Marketing Assistance	.921**	.650**	1	
Business Growth	.432**	.415**	.365**	1

** Correlation is significant at the 0.01 level (2-tailed)

Table 2 illustrated that there are positive relationships between the dimensions of GSPs and business growth of SMEs firms. The positive correlation means that an increase in one variable will also affect increase in other variables. For financial assistance dimension and business growth, the positive correlation coefficient is at 0.432. For training assistance dimension and business growth, the positive correlation coefficient is at 0.415. Lastly, for the last part is marketing assistance dimension and business growth also shows a positive correlation coefficient is at 0.365. The comparison with variables and business growth shows financial assistance dimension achieved the highest correlation coefficient is 43.2% compared the correlation coefficient for training assistance dimension and marketing assistance dimension is 41.5% and 36.5%.

V. CONCLUSION

The significant positive correlation between the dimensions of GSPs to business growth that SMEs firms practiced and utilized will enhance their business growth. This is critical to the ultimate strengthening of the SMEs firms' economy, improvement of the competitive stance of the SMEs firms in the global marketplace, and enhancement of the social and economic states of other allied nations.

This research represents a rare opportunity for business, academia, policy makers and etc to benefit from empirical analysis. Academicians have the opportunity to study and research about the relationship between GSPs toward business growth, business owners have the opportunity to utilize and practice GSPs that may prove to increase their chances for commercial success and for policy makers and ministries, the results can be used as the reference in formulating policies or support programmes to help SMEs gain better access to global markets, technology and finance as well as to improve their management capabilities.

REFERENCES

Abdullah, M. A. (1999). The accessibility of the government-sponsored support programmes for small and medium-sized enterprises in Penang. *Elsevier Science ltd.16*, 10.

Barcala, M. F. E. A. (1999). Training in small business retailing: testing human capital theory. *Journal of European Industrial Training, 23*, 18.

Bates, J. (1971). *The financing of small business*. London: Sweet and Maxwell.

Daisy, K. M. H., Azura, A. E., Lilis, S. A. T. & Noor, A. A. R. (2011). A preliminary study of top SMEs in Malaysia: Key success factor vs government support program. *Journal of Global Business and Economics, 2*, 12.

Dalton, D. R. I. F. K. (1985). Organizational performance as an antecedent of inside/outside executive succession: An empirical assessment. *Academy of Management Journal*, 14.

Davidsson, P., Achtenhagen, L. & Naldi, L. (2006). What do we know about small firm growth? In Parker, S. (Ed.) '*The Life Cycle of Entrepreneurial Ventures* (pp.361-398), New York: Springer.

Edwards, P. A. T., Peter W. (1994). "Finance for small and medium-sized enterprises: information and the income gearing challenge". *International Journal of Bank Marketing, 12*, 7.

Gibson, B. (2001, September 13-15). *Financial structure in Australian small firm*. Paper presented at the annual conference of the Small Enterprise Association of Australia and New Zealand, Wellington, New Zealand.

Hashim, M. K., Mahajar, A.J., & Ahamd, S. (2003). Innovative practices of Malaysian firms: Some evidence from enterprise 50 winners. *Malaysian Management Review, 2*, 9.

Hashim, M.K., and Wafa, S.A., 2002. Small & Medium-Sized Enterprises in Malaysia: Development Issues, Kuala Lumpur: Prentice Hall.

Hunter, M. G. A. L., W.A. (2003). *Adopting the entrepreneurial process in the study of information systems and small business*, Hershey, PA: IRM Press.

Intan, O., Theresa, C.F., And Maria, C.G. (2011). The relationship between human resource practices and firm performance: An empirical assessment of firms in Malaysia. *Journal of Business Management and Applied Economics, 12*, 8.

Karpak, B., Topcu, I. (2010). Small medium manufacturing enterprises in turkey: an analytic network process framework for prioritizing factors affecting success. *International Journal of Production Economics* 11.

Miti, M. O. I. T. A. I. (2006). Third Industrial Master Plan 2006-2020: Malaysia towards global competitiveness. Kuala Lumpur. Ministry of International Trade and Industry, Malaysia.

Mohd Zulkifli, A. K., Mohd Rushdan & Zakiah. 2010. Small and medium enterprises (smes) competing in the global business environment: A case of Malaysia. *International Business Research.3*, 9.

Nadler, L. W. (1989). *Managing Human Resource Development*: Concepts and model, (3rd ed.). San Francisco, CA: Jossey – Bass.

Noe, R. A. (2000). *Employee training & development Singapore*. McGraw - Hill.

Paul, S., Whittam, G., Wyper, J (2007). The pecking order hypothesis: does it apply to start-up firms? *Journal of Small Business and Enterprise Development 1*, 14.

Pollard, C. E. A. H., S.C. (1998). The changing face of information system issues in small firms. *International Small Business Journal, 3*, 18.

Renfrew, K. (1982). The adequacy of finance for small business in australia, In W Dunlop, & W Sheehan (Eds.), *Small Business Research* (pp.103-138). Newcastle, NSW, Australia: Institute of Industrial Economics. The University of Newcastle.

Sekaran & Bougie, R. (2010). Research methods for business: A skill building approach (5th ed.). West Sussex, Uk: John Wiley & Sons.

SMECorp, 2011. *Definition of SME*. [online] Available at:

http://www.smecorp.gov.my/v4/node/14 [Accessed on 28 October 2011].

SMIDEC (Small and Medium Industries Development Corporation). (2009). 2008 Annual Report. Kuala Lumpur: Percetakan Nasional Malaysia Berhad

Stevenson, H. H., & Jarillo, J.C. (1990). A paradigm of entrepreneurship: entrepreneurial management. *Strategic Management Journal*, 11.

Steward, K. S. (2003). The relationship between strategic planning and growth in small business. Unpublished doctoral dissertation, Nova Southeast University, Florida, United States.

Storey, D. J. (1994). Understanding the small business sector, london: Routledge.

Venkatraman, N., & V. Ramanujam. (1987). Diversification and performance: A reexamination using a new two-dimensional conceptualization of diversity in firms. *Academy Of Management Journal,* 14.

Zulkiffli, S. (2009). *A literature analysis on the supply chain operational capabilities in malaysian small and medium enterprises* (SMEs). 3rd International Conference on Operations and Supply Chain Management (pp.1-13). Malaysia: ISMSEM.